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SPECIAL REPORT-How a British town became a hub for online porn and poker

by Reuters

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(Repeats to add video link)

By Alasdair Pal and Himanshu Ojha

CONSETT, England, Nov 23 (Reuters) - John Mawson and his wife Sandra live in a cramped one-storey home on a hill near Consett, an old steel town in the north east of England. They have been company directors for years, and between them serve 15 firms. But John had no idea what their companies did until a few years ago, when he looked online.

One of the directorships he discovered was Thunder Flash Entertainment, owner of hardcore porn sites. It was a bolt from the blue.

"All we're supposed to be is just the names," said the 61-year-old retired supermarket worker, kneeling on the living room carpet to play with the couple's Chihuahua.

The Mawsons are among more than 400 people in and around Consett who have served as directors for companies based in and around the town. These shell companies often have no real operations or staff in Britain, but have been conduits for millions of pounds in revenue generated by online businesses around the world. Some of the directors told Reuters they knew nothing about their roles.

The residents of Consett are key cogs in a booming online industry. A Reuters investigation has found they have served as directors of more than 1,000 businesses: poker games, pop-up get-rich-quick schemes, vendors of colon cleansers and healthfoods, and much more.

Some of the websites lured customers with cheap offers, only to hike prices as soon as people keyed in their credit card details. Thunder Flash, for example, would offer a three-day free trial, then bill those who signed up for \$40 per month, its website showed. The site is no longer accepting customers; the Mawsons said they had been completely unaware of the practice.

The network of directors in Consett sheds new light on the legal grey zones in Britain's corporate regulation, showing how they help scammers turn UK businesses into tools of deception. Some of the activity the companies lent their names to was illegal, but neither the directors nor the company formation agent involved have been charged with any wrongdoing.

Frances Coulson, head of insolvency and litigation at Moon Beever solicitors and a trustee director of an independent think tank, the Fraud Advisory Panel, said the story highlights flaws in the regulation and enforcement of company formation in Britain. "Part of the *raison d'être* for the enforcement is the protection of the public," she said. This "doesn't sound as if it's happening."

At the core of the operation is a company formation agent named Simon Dowson. He lives in a refurbished farmhouse at the top of a hill and drives a black Mercedes AMG. He agreed to talk to reporters a few weeks ago when he was leaving a branch of Starbucks at the local mall.

Dowson, 35, said he helped online merchants whose transactions are seen by credit card firms as "high risk" to win approval to take credit card payments. Many were overseas and needed a European company base. For a few thousand pounds a time, Dowson would set up companies like Thunder Flash with UK addresses and provide the directors and company records, such as annual returns and tax forms, to meet UK requirements. A UK address made it easier for the sites to accept payments in Europe, Dowson said.

He ran his business through two main companies: Brinken Merchant Incorporations (BMI) and later, EMB Management Solutions (EMB). Those firms in turn created the shell companies and named Consett locals as directors.

The directors did nothing more than forward mail to Dowson's offices for a few pounds a month; Dowson and his employees took care of the administration. His business turned over less than 1 million pounds a year, he said.

In 2009, the U.S. Secret Service found that a company serviced by Dowson's business with a Consett director had breached money-laundering laws. A German who confessed to being behind the operation was fined and jailed in the United States. Dowson and the firm's director were not named in the U.S. complaint.

Britain's Department for Business Innovation and Skills (BIS) found other firms serviced by Dowson and the Consett directors were luring consumers into excessive credit card charges. One was concealing profits. Others used UK addresses while their operations were in Africa or Central America.

While having operations overseas is not in itself illegal, the regulator found the directors had violated UK company law by not fulfilling their duties, and said some had not cooperated with a government inquiry. They closed those companies down, but no one in Consett was sanctioned.

Dowson said his businesses went through a "long and arduous process of investigation" in 2015 by the BIS Department. As a result, he said, he agreed to dissolve BMI and promised EMB would stop using untrained people in and around Consett as company directors. "EMB is no longer forming entities going forward," Dowson said. There were around 70 companies still being serviced by EMB, he added; all had stopped taking credit card payments from customers.

The BIS, which is now known as the Department for Business, Energy & Industrial Strategy, and the tax authority HMRC, which Dowson said regulated his firms, declined to comment on the case.

HIGH RISK

Perched at the top of the Derwent Valley, Consett is a town of about 25,000. It was prosperous for much of the 20th century, but suffered badly after the closure of its steelworks in 1980 with the loss of 4,500 jobs. Alex Watson, the head of the local council for 18 years until 2009, said the town was built round the steelworks. The closure "had a devastating effect on the whole area."

Dowson left the town to work in internet merchant processing on the Isle of Man and returned in the mid-2000s. He said he was a specialist in helping online businesses collect cash for "high risk" transactions.

"High risk business covers a multitude of business models," Dowson said. "There are adult, dating, online gaming, travel, it goes further and further and further."

Credit card issuers say such businesses are risky because their customers may be more easily scammed than others, or deny ever signing up to them. That could force card companies to reimburse customers, in what are known as "chargebacks." Chargebacks cut into industry profits.

In 2004, Dowson said, he saw an opportunity to help online businesses outside Europe set up European merchant accounts to accept major credit cards. As a general rule, merchants in Europe pay lower transaction fees than those in emerging markets. To set up the European accounts, a "European entity" - or company - was needed. That was what Dowson would provide.

UK rules say companies need at least one real human being as director. At first, Dowson and his family members acted as directors. But after a while, he needed more people. So he turned to the residents of Consett.

THE DIRECTORS

According to a Reuters analysis of corporate filings, at least 429 Consett residents have been or still are directors in companies serviced by Dowson. More than 120 were appointed director of three or more companies each over the last 10 years. Another 52 were

named for as little as a month before resigning. Reuters also found that 13 were aged 18 when they became directors, just two years above the legal minimum age of 16.

The directorships flourished in a legally complex area. The Mawsons said they believed they were nominee directors - which they saw as directors in name only. But in Britain, that title has no legal status. "Under UK law, there is no such concept as a nominee director," said Nick Lindsay, Director of Legal and Governance at corporate services firm Elemental CoSec. He said he turns down requests for "nominee director" services because of this.

"Any director, whether they are executive or non-executive, owes the same duties," Lindsay said. These include acting in good faith in the best interests of the company, taking proper care of its assets, and preparing accounts that give "a true and fair view" of its affairs.

Regulators say the legal status of people who regard themselves as so-called nominee directors in Britain is complex. The Consett case shows such directors can be found to have neglected their duties and not be sanctioned for it.

Mawson said he had started out as a director when a young neighbour dropped by after he was made redundant in 2009. The neighbour was offering people 50 pounds (\$62) to provide their name and address.

"We were all on the dole and it was free money," said Mawson, a gaunt man with grey hair and a bushy moustache. "You didn't have to do anything. You know, everybody was looking for money at the time."

Both he and Sandra, who is disabled, signed up. They said they did not know Dowson and dealt with the business through a young woman at the BMI/EMB office. They would receive mail addressed to companies

registered at their home and either forward the letters or take them in person to the BMI/EMB office.

Reuters reporters visited more than 60 addresses of directors appointed by BMI/EMB. Twelve people answered the door. Six said they could not remember they or their family members had even been appointed as directors.

Social worker Karen Scott, 40, who was listed as the director of four companies, looked shocked.

"That's really concerning, that is," she said, on the doorstep of a red brick semi-detached house near the town centre. She said she did not see how she had been listed as the director of any company.

Dowson said that any director ever appointed by BMI or EMB was appointed "with express permission and understanding" of the person involved and after all due diligence checks. He produced two documents which he said showed Scott had knowingly agreed to be a director.

RISK REDUCTION

For a "standard company," Dowson said he collected between 2,500 and 3,000 pounds a year in fees, out of which he paid the cost of providing a director, a registered address and a tax return.

It would be simpler and cheaper for him to appoint himself and a small number of employees as directors for the companies he formed, he said. But if one company were to fall foul of credit guidelines and generate lots of chargebacks, credit card companies would try to find any links it had with other businesses and cut them off too. Using multiple directors helped limit the damage to his clients, he said.

"If we could have been directors on all the companies we could have saved ourselves an astronomical amount of money," he said.

One of the companies set up by BMI was called Bluetool Ltd. It was registered to a semi-detached house on Rosedale Avenue in Shotley Bridge, a small town near Consett.

Its sole director was listed as Gail Hope, a teacher at a local college. When Reuters called at her house, her husband Keith said she had never been the director of any company. She did not respond to requests for comment. Dowson provided a signed form which he said proved her consent. She did not respond to requests for verification.

Bluetool was part of a scheme to distribute online gambling payments. In February 2010, a German named Michael Schuett pleaded guilty to illegally transferring \$70 million in poker profits from a bank account in Germany to 23,000 U.S. and Canadian citizens from 2007 to 2010 via shell companies - one of which was Bluetool. Schuett could not be reached for comment.

Regulators took no action against Dowson or Hope after the case.

THE WATCHDOGS

In March 2010, the UK Insolvency Service, a government body charged with regulating some company formation agents which was overseen by the then BIS Department, shut down 27 firms that BMI had created and staffed with directors. It found they were behind sites which trapped online customers through "free trial" offers into high credit card commitments on health supplements including colon cleansers, teeth whitening kits and acai berry detox pills.

Its analysis of just seven of the companies found they turned over \$19 million in a seven-month period.

Government investigators visited the companies' directors in Consett. The directors said they knew nothing about running the companies and their only task was to forward post back to BMI for a fee of around 150 pounds a year, according to the Insolvency Service. Neither they nor Dowson were sanctioned.

The individual behind the 27 firms was most likely Clayton Douglass, an American living in Barcelona, the Insolvency Service wrote, citing "documents available." Reuters was unable to clarify his precise role. Douglass, who websites show has since worked for a company providing billing services to porn companies, did not respond to requests for comment.

The 27 companies were wound up. There is no public record of proceedings against any of the directors.

Dowson said he provided some 60 companies to Douglass in 2006, but was unaware of their intended purpose: "We only found out about this when the directors started to receive abundant amounts of post," he said. The letters were complaints from customers; he said he then decided to stop assisting health supplement companies.

In August 2011, another government investigator from the BIS Department exercised its right to inspect Dowson's corporate books.

When the investigator asked for documentation, EMB challenged the request in court, saying it was disproportionate to request details on all 400 of its clients. In a February 2012 judgment, High Court judge Stephen Males dismissed EMB's objection.

The judge criticised EMB's use of so-called nominee directors to draw a "veil of secrecy" over the ultimate owners of the companies. "It is not unknown for such business structures to be part of a somewhat

murky world, which on occasion cries out for the exercise of investigative powers," he said. EMB turned over the information.

A couple of years later the government investigator found another company set up by BMI, Bluemay Ltd, was storing millions of euros in a bank account even though it had reported just hundreds of pounds in profits. The sole director of Bluemay was Scott Baldwin, a resident of Chopwell, near Consett. Companies House records show he was not sanctioned for his part in Bluemay. He did not respond to requests for comment.

According to the Insolvency Service, Bluemay owned a gaming website called 7red.com on behalf of an Israeli named Ido Raviv, who was living in the UK at the time. Bluemay reported profits of just hundreds of pounds in 2011 and 2012. Investigators found credits in its bank account totaling 36.3 million euros (\$39 million) over the period.

Raviv met the Insolvency Service investigators in Britain in February 2013; they agreed to meet again the following day but when the inspectors called, no-one was home, according to the Insolvency Service report. A few days later, Raviv told the regulator he had gone to Israel for family reasons. Then a third party forwarded to investigators an email in which Raviv stated that he was now residing in Kazakhstan and no longer had any business in the UK. Raviv could not be reached.

As part of that investigation, in 2014 the Insolvency Service shut down Bluemay and 10 more companies that BMI had founded. It said all the directors had violated UK company law by not playing an active role in managing the firms, and some - including Baldwin - had failed to cooperate. The firms were holding porn websites in trust for owners based in Costa Rica and Nigeria.

An Insolvency Service spokesman said the normal sanction in such cases is to disqualify people from serving as directors in future. But official records do not show any of the Consett directors have been barred. Some have since been listed as directors of other companies.

Asked why none of the directors had been barred, the Insolvency Service did not respond.

"MASSIVE DOWNTURN"

After EMB's clashes with the regulators, Dowson said, he reached a deal with the regulator last August: He would dissolve BMI and any new companies formed by EMB would be registered at EMB's office, with directors recruited from a small pool of professionals who had been trained.

The Insolvency Service declined to comment.

Since then, Dowson said, his business had taken a "massive downturn" and he was investigating alternative sources of income. "I'm investing in a vehicle rental company," he said.

But some residents of Consett are still becoming directors of companies in much the same way as before.

Sandra Mawson is among eight Consett residents who have been named directors of new companies since August 2015. She confirmed that she has been appointed director of two companies with her consent.

Her husband said the couple were dealing with the same woman at the same office as EMB, although the company they now dealt with was called Orchard Consultants.

Contacted by telephone, a woman at Orchard Consultants said Simon Dowson was not available to speak. She declined further comment.

Dowson said he was not affiliated with Orchard Consultants. (\$1 = 0.8070 pounds) (\$1 = 0.9403 euros)

(Edited by Sara Ledwith and Richard Woods)

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